DOCUMENT RESUME

ED 315 646 CE 054 230

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TITLE A Business Plan Outline.
INSTITUTION Illinois State Dept. of Commerce and Community Affairs, Springfield.
PUB DATE Jun 89
NOTE 18p.
PUB TYPE Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Adult Education; *Business Administration; Business Education; *Business Skills; *Credit (Finance); Marketing; Money Management; Planning

ABSTRACT

This document identifies the information that should be included in a business plan, and in what order, to make it an effective management tool and an effective tool to communicate a proposed or existing company's strengths and potential to potential financiers. Following an introduction, the document explains the following sections of a business outline: (1) a plan summary; (2) description of the company and its industry; (3) description of the product or service; (4) market analysis; (5) marketing strategy; (6) description of operations; (7) description of management and organization; (8) schedule of activities; (9) list of critical risks and problems; (10) financial information; and (11) conclusion. Five appendices provide a sample projected cash flow statement, a sample projected income statement, sample income statement explanations, a sample projected balance sheet, and sample balance sheet explanations. (CML)

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A BUSINESS PLAN OUTLINE

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ILLINOIS DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS
Office of Urban Assistance
June 1989

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INTRODUCTION

A business plan is essentially a description of your proposed or existing business and should include information on such matters as: your product or service, your market, marketing strategy, how your company's products or services will be produced, your company's ownership and management structure, its organization and personnel, financing needs and projections. A well prepared business plan serves two important functions. First, it is a basic management tool that helps guide the future direction of your company. Second, it is a mandatory document if you plan to seek business financing.

How much detail should your business plan contain and in what order? What will help make it effective in communicating your proposed or existing company's strengths and potential? The purpose of this guide is to help you answer such questions.

Not all plans need to be alike. Therefore, some sections of this guide may be more applicable to your company than others. You should make every effort to tailor your plan to your company's specific set of circumstances.

PLAN SUMMARY

Prospective lenders and investors generally review many business plans. A well written business plan summary allows them to quickly decide if they want to examine the entire plan in detail. Therefore, your objective in the plan summary is to convince the prospective lender or investor to study the plan further. Although a plan summary appears first, it should be the last part you write.

The summary should briefly highlight the key elements of your business plan including the following points:

- A brief history of your business or business concept;
- A description of your products or services, with emphasis on their distinguishing features, the market needs they will meet, the market potential, and assessment of the competition;
- How the products will be made, or services performed;
- An outline of your management team's experience and talent;
- A summary of your financial projections; and
- How much money you are seeking, in what form, for what purpose, and how it will be repaid.

COMPANY AND INDUSTRY

The purpose of this part of the plan is to provide background information on your company, and to describe the condition and prospects of your industry. The following points should be covered:

- COMPANY
  - The business you are in or plan to be in, including a description of your product or services;
  - The background of your business, including when it was started, current ownership, its legal structure, and highlights of its progress and prospects; and
  - The principals of your business and the roles each played or will play in the firm.
- INDUSTRY
  - A brief discussion of the industry you are in (e.g., restaurant, plastics, executive recruiting, etc.);
  - Your view of the current status and prospects for the industry;
  - Description of your principal competitors and how they are performing in terms of growth in sales, profits, and market share; and
  - An analysis of the effect of major economic, social, technological, or regulatory trends.

PRODUCT OR SERVICE

In this section you need to thoroughly describe your product or service, along with any proprietary features and future development plans. The following information should be presented:

- Description of product or service -- Describe in detail and include engineering studies, photographs, and sales brochures, if needed, to help further the reader's understanding.
- Research and development -- If applicable, describe the nature and extent of research and development work that must be accomplished before your product or service is placed on the market. Also indicate the time and costs involved.
- Proprietary features -- Describe any patents, copyrights and any other proprietary features. Also discuss any other factors that have enabled you or could allow you to obtain an advantageous position in your industry.
- Future development -- Outline any plans you may have for the extension of your product or service or development of new or related products.

MARKET ANALYSIS

This section and the "Marketing Strategy" section are generally the most difficult parts of the business plan for an entrepreneur. It is here that you show how you plan to turn your idea into a product or service that people will want to buy. Your objective is to convince lenders or investors that:

- There is a market need for your product or service;
- You understand the potential customers' or clients' needs, and your product or service will meet such needs; and
- You can sell your product or service at a profit.

Included in this section should be the following information:

- Market definition -- Define the target market and your niche in it by describing the potential customers, their locations, why they buy or might buy your product or service, when they buy or might buy, and what their expectations are for price, quality and service. If your company has a track record, discuss how its products or services have been received in the marketplace. It is important to discuss any negative reactions to your product or service, as well as current or planned actions to overcome such problems.

- Market size -- Describe the market's current size. The market should be determined based on a review of statistical data and discussions with potential distributors, sales representatives, and customers.

- Market trends -- Describe the market's growth potential. Discuss how big you believe the market will be in three years, five years and ten years. Support growth estimates with industry trends, technological developments, changing customer needs, and other related factors. Your sources and assumptions should be clearly stated and realistic. If you overstate the size of the market or your market share, investors will question the credibility of the entire business plan.

- Competition -- Name and describe the companies that will be your competitors, and describe their market share potential. Compare products and/or services with your competition on the basis of price, performance, service, warranties and other important features. Review your competitors' strengths and weaknesses in financial, marketing, and operational areas. If there are no competitors, describe the possible development of competition and from where it is likely to come. Discuss barriers to entry and the likelihood of technological or other obsolescence factors.

MARKETING STRATEGY

The purpose of this section is to provide projections of sales, market share, and target market(s), and to support your belief that your marketing plan will achieve projections. It should include the following:

- Estimated sales and market share -- Provide an estimate of sales and market share (units and dollars) based on your assessment of customer or client acceptance of your product/service, potential market size and trends, and the competition. Also, identify any major customers who have made, or are willing to make, purchase commitments.

- Market strategy -- Identify your target market(s). It is important to target and/or segment your market carefully. Concentrating your resources on the needs of a specific segment and carving out a market niche may mean the difference between success and failure. Also, outline your method of identifying and contacting potential customers or clients, as well as the product or service features that will be emphasized.

- Pricing -- Discuss the prices to be charged for your product or service and compare your pricing policy with those of major competitors. Explain how your pricing or fee structure will enable you to gain acceptance of your product or service, maintain and increase market share, and provide for a profit.

- Sales and distribution -- Discuss your plans for selling and distribution. If a direct sales force will be used, describe how it will be organized and controlled. This should include the number and location of sales personnel and the salary or commission each will receive. If distributors or sales representatives will be used, describe how they will be recruited and paid, and what geographic territories will be covered. Also, you could discuss sales efficiency issues such as how many sales calls it will take to get an order, and how large an average order will be.

- Service and warranty issues -- Discuss your service and warranty policies and your methods for handling service and warranty problems.

- Promotion -- Discuss how you will generate awareness of your product or service, including the use of such tactics as: trade show participation, trade periodical ads, promotional literature, public relations, etc. Estimate the percentage of total expenses that will be allocated to promotion and when such expenses are likely to be incurred.

OPERATIONS

In this section, you should describe how you plan to produce your product or perform your service, including how and where it will be carried out, your physical space and equipment needs, and your labor requirements. Included should be the following information:

- Location -- Describe the location of the business and the advantages and disadvantages of the site with respect to labor and material costs and availability, proximity to customers, access to transportation, state and local laws (including zoning), and utility costs.

- Physical space and equipment -- Describe the physical facilities in use or to be acquired (leased, purchased or built) and the costs and timing of such acquisitions. Estimate future facilities and equipment needs, based on sales projections, including the cost of additional capacity and its timing.

- Production processes -- Describe the production processes necessary to develop your product or provide your service, including: method of production; procedures for quality, production and inventory control; raw materials required (including sources, costs, etc.); organization and control of purchasing; breakdown of fixed production costs; and breakdown of variable unit costs by product/service.

- Labor -- For other than management, describe to what extent the local labor force is adequate in terms of quality and quantity. If applicable, discuss the type of training needed and the cost to your company.

MANAGEMENT AND ORGANIZATION

The experience, training and talent of your management team is very important, particularly if you are seeking equity financing. Generally, venture capital firms will conduct a complete reference check of each member of your management team. Therefore, this section of your business plan should describe the following:

- Organization -- Explain how your company's management team is organized, and describe the primary role of each team member. If appropriate, include an organizational chart. Demonstrate how team members' skills complement each other. Investors are looking for a team with a balance of management, financial, production, and marketing skills, as well as experience with the product or service you intend to provide.

- Key management -- Prepare a brief summary of each key member of the management team including: duties and responsibilities; career highlights and significant accomplishments (include resumes in the appendix). The discussion of the management team should also outline any weaknesses and how they will be overcome (e.g., training, recruiting, outside advisors, etc.).

- Compensation of ownership -- Indicate how each member of the management team will be compensated (e.g., salary, profit sharing, incentive bonus, stock options, etc.), and what investment each has in the company. Include a list of key stockholders, with the number of shares each owns.

- Board of directors -- Identify your board members, briefly discuss how they are expected to benefit your company, and list their investment in the company, if any.

- Professional services -- List the legal, accounting, banking and any other service organization that will advise your company or help fill gaps in the organization.

SCHEDULE OF ACTIVITIES

A realistic schedule that shows the timing of activities for the major events of your business plan is critical to your company's success. It also indicates the ability of management to plan the company's development. A schedule should be prepared outlining steps to be taken in your company's development and the completion date of each step for a period of three to five years. Entrepreneurs tend to underestimate the amount of time needed to complete various tasks. Be realistic.

CRITICAL RISKS AND PROBLEMS

The development and operation of any business involves risks and problems, and it is best to identify these potentially negative factors and explore their implications. To determine the risks and problems that require discussion, you should identify the plan assumptions or potential problems that are most critical in terms of the success of your venture. Then discuss them and outline possible ways for dealing with them or minimizing their impact.

FINANCIAL INFORMATION

The amount of financial information needed in your business plan will depend on the stage of financing, the amount of money needed, and the nature of financing being sought. Generally, the amount of information required will increase as the amount of financing requested increases, as it will when equity (versus fully collateralized) lending is requested.

Your business plan should describe, in general terms, the type and amount of funding you are seeking. Also, information on your firm's present financial status (include current financial statements if your firm is already in operation) and financial projections must be included.

The funding request -- This part of the Financial Information section should cover the following:

- Desired financing -- State how much money is needed and how it will be used.
- Capitalization -- Explain the capital structure of your company and what effect funding will have on it.
- Use of funds -- Explain how you plan to use the funds. The use should be consistent with your financial projections. For example, if you need seed capital, you might indicate that the money will be used to further develop your product and set up a marketing organization. In subsequent rounds of financing, you can refer the reader to your financial projections for details, but briefly explain how much of the money will be used for R&D, production, equipment, etc.
- Future financing -- Clearly outline your company's future funding needs. Discuss when you will require future funding and what the milestones are for reaching that point.
- Current financial statements -- If your company has a track record, provide financial statements for the last three years or from inception.
- Financial projections -- You should provide three-year cash flow, projected income (profit and loss) statements, and balance sheet projections. If your company has been in business for awhile, the cash flow projections should be on a quarterly basis for the first year and annually thereafter. Otherwise, cash flow projections should be on a monthly basis for the first year, a quarterly basis for the second year and annually thereafter. When

making financial projections, it is mandatory that you explain all key assumptions. Samples of financial projection statements are included in the Appendix. They can get pretty involved, so make use of your accountant and/or other professional advisors. There are also several good computer software packages available to help you accomplish these tasks.

Your financial projections and funding request must be keyed to your market expectations. You should begin your financial projections with a sales forecast. Often, entrepreneurs make the mistake of starting at the production cost level and assuming that everything produced can be marketed for a profit. Starting with a sales forecast will also help you define how much cash you will have coming from operations and when it will be coming in. This is essential to forecasting cash flow and determining how much equity and debt capital you will require until the company generates a positive cash flow.

You may want to seek assistance from an accountant or one of Illinois' Small Business Development Centers (SBDCs) in developing the financial information section of your plan. To receive information about the SBDC nearest you, contact the Department of Commerce and Community Affairs' Small Business Hotline at 1-800-252-2923.

CONCLUSION

In summary, your plan should describe:

- Your company and industry;
- The product or service;
- The market and marketing approach;
- How the product or service will be produced;
- Management of the company; and
- How much money the company needs and what it will do with it.

By following these guidelines, you should be able to provide a prospective investor or lender with a plan that is well prepared and persuasive in portraying the potential of your company.

APPENDIX A: PROJECTED CASH FLOW STATEMENT

	Month 1	Month 2	Month 3	Month 4	Month X
CASH					
Beginning Cash					
Cash Sales					
Collections					
Other Cash					
TOTAL CASH AVAILABLE					
EXPENSES					
Salaries and Wages					
Other Employee Expenses					
Utilities					
Rent/Lease					
Office Supplies					
Telephone					
Printing/Photocopying					
Misc. (including postage)					
Advertising					
Insurance					
Auto/Transportation					
Travel/Entertainment					
Taxes/Licenses					
Purchasing/Shipping					
Subscriptions/Dues					
Bank Charges					
Interest					
Depreciation					
Commissions					
Decorating					
Legal/Accounting					
Other - List					
TOTAL EXPENSES					
CASH AVAILABLE					
Payment on Debt					
ENDING CASH					

APPENDIX B: PROJECTED INCOME STATEMENT

	1st Year		2nd Year		3rd Year	
	Amount	% of Sales	Amount	% of Sales	Amount	% of Sales
Gross Receipts						
Cost of Sales						
GROSS PROFIT						
EXPENSES						
Salaries and Wages						
Other Employee Expenses						
Utilities						
Rent/Lease						
Office Supplies						
Telephone						
Printing/Photocopying						
Misc. (including postage)						
Advertising						
Insurance						
Auto/Transportation						
Travel/Entertainment						
Taxes/Licenses						
Packaging/Shipping						
Subscriptions/Dues						
Bank Charges						
Interest						
Depreciation						
Commissions						
Decorating						
Legal/Accounting						
Other - List						
TOTAL EXPENSES						
NET PROFIT/LOSS BEFORE TAXES						
LESS: Income Taxes						
NET PROFIT AFTER TAXES						
LESS: Withdrawals (only if Proprietorship or Partnership)						
UNDISTRIBUTED PROFIT OR LOSS						

APPENDIX C: SAMPLE INCOME STATEMENT EXPLANATIONS

Gross Sales: First year based on projections from business plan. Second year gross sales based on a 5 percent growth rate and 4 percent inflation.

Cost of Sales: Used industry ratio of "X" percent.

Gross Profit: Difference between sales and cost of sales.

VARIABLE EXPENSES

Salaries and Wages: First year based on business plan projections. Salaries and wages are projected to increase 5 percent the second year and 5 percent the third year.

Other Employee Expenses: Includes employer's share of Social Security and assigned rate for unemployment compensation.

Utilities: (Industry ratio -- "X" percent). Includes electricity, gas, water and trash removal.

Office Supplies: (Industry ratio -- "X" percent) for stationery, forms, photocopy paper, etc.

Miscellaneous: 0.5 percent allotted for postage, petty cash, etc.

Advertising: (Industry ratio - "X" percent), for advertising in local papers, yellow pages, and trade magazines. Four percent of sales is allocated in the first year to cover initial promotion of $1,000 -- $250 of which will be spent prior to opening day. (See Marketing Strategy section of business plan.)

Legal/Accounting: (Industry ratio -- 1 percent) for legal services, bookkeeping and necessary accounting and tax services.

(Explain other items as appropriate.)

FIXED EXPENSES

Rent: Based on lease agreement.

Insurance: Includes workers' compensation, life insurance on president, general liability, automobile, and equipment.

Taxes/Licenses: Occupational licenses for each city served by the business.

Interest: 10 percent interest per year on unpaid balance of 5-year bank loan ($800 first year on unpaid balance of $8,000). A loan payment of $1,600 will be made at the end of the first year, decreasing the interest paid in the second year to 10 percent on the unpaid balance of $6,400 (or $640), and the same amount in the third year.

Depreciation: On furniture, fixtures, and equipment including office equipment and automobile using straight line depreciation method as follows:

Item	Original Cost	Useful Life	Salvage Value	Amount of Depreciation Per Year
Office furniture/ fixtures	$ 2,000	10	$ 200	$ 180
Office equipment	4,000	10	400	360
Automobile	12,000	5	2,600	1,880
TOTAL				$ 2,420

Auto/Transportation: Repairs, gas/oil, maintenance.

Decorating: "X" percent of sales for improvements to leased premises. No decorating expected in second or third years.

APPENDIX D: PROJECTED BALANCE SHEET

Opening Day

ASSETS

Current Assets:		
Cash on hand and in bank	$_____	
Accounts receivable	-0-	
Inventory	_____	
Total Current Assets		$_____
Fixed Assets:		
Automobile	_____	
Furniture, fixtures and equipment	_____	
Less allowance for depreciation	-0-	
Total Fixed Assets		_____
Other Assets:		
Deposit - utilities	_____	
Deposit - lease	_____	
Prepaid expenses - remodeling & advertising	_____	
Total Other Assets		_____
TOTAL ASSETS		$_____

LIABILITIES AND CAPITAL

Current Liabilities:		
Loan payable, due within 1 year	$_____	
Total Current Liabilities		_____
Long-Term Liabilities:		
Loan payable, 5 years, 10% $_____		
Less: Current portion above _____		
		_____
Total Long-Term Liabilities		_____
TOTAL LIABILITIES		_____
Proprietor's Capital		_____
TOTAL LIABILITIES AND CAPITAL		$_____

(A similar format will be used for projected balance sheets at the end of year one and year two.)

APPENDIX E: SAMPLE BALANCE SHEET EXPLANATIONS

Opening Day

Cash:	$25,000	available 30 days before
Less:	2,000	decorating
	12,000	automobile
	4,000	office equipment
	2,000	inventory
	250	advertising in advance
	$ 4,750	

All cash expenditures prior to pending have been converted to assets. Unlike the other cash expenditures, the $250 in advertising and $2,000 in decorating expenses are "temporary assets" (see Prepaid Expenses under Other Assets). Once the business is open, these will be transferred to an expense account and will appear in the income statement.

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Published by the

Illinois Department of Commerce and Community Affairs
620 East Adams Street
Springfield, Illinois 62701
217/785-6193

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State of Illinois

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Bureau of Program Administration

EDITOR: Charles Kirchner

FKpd095

Printed by the Authority of the State of Illinois
W.O. 7898 5,000 8/89